Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

File #: 2017-0352, **File Type:** Resolution **Agenda Number:** 14.

FINANCE, BUDGET AND AUDIT COMMITTEE
SEPTEMBER 20, 2017

SUBJECT: PROPOSITION A BONDS
ACTION: AUTHORIZE COMPETITIVE SALE OF BONDS

RECOMMENDATION

ADOPT a resolution, Attachment A, that:

A. AUTHORIZES the competitive sale of up to $550 million of Prop A "New Money Bonds" and up to $135 million of "Prop A Refunding Bonds" (collectively the "Prop A Bonds") in one or more series and one or more transactions through June 30, 2018;

B. APPROVES the forms of Notice of Intention to Sell Bonds, Notice Inviting Bids, Supplemental Trust Agreement, Continuing Disclosure Agreement, Escrow Agreement and Preliminary Official Statement on file with the Board Secretary, all subject to modification as set forth in the resolution; and

C. AUTHORIZES taking all action necessary to achieve the foregoing, including, without limitation, the further development and execution of bond documentation associated with the issuance of the Prop A Bonds.

(REQUIRES SEPARATE, SIMPLE MAJORITY BOARD VOTE)

ISSUE

The Prop A New Money Bonds will be issued as fixed rate bonds in a par amount not to exceed $550 million. The Prop A New Money Bonds will fund Prop A eligible capital projects and expenditures and permanently finance $123.7 million of outstanding Prop A commercial paper, the proceeds of which financed Prop A eligible capital projects and capital expenditures. We want to issue the fixed rate long-term bonds before interest rates move higher. All or a portion of the Prop A New Money Bonds are expected to be certified as Green Bonds, meaning the financed projects meet the environmental requirements under the Climate Bonds Initiative.

Current interest rate levels provide an opportunity to lock in approximately $4.5 million of net present value savings by issuing the Prop A Refunding Bonds to refund certain of the outstanding Prop A Senior Lien Bonds (primarily the Prop A 2011-B Bonds) in compliance with the Board-adopted Debt Policy.

DISCUSSION

The Debt Policy provides guidelines for new money bond issues and establishes criteria to evaluate refunding opportunities. Prop A new money bond issues are permitted under the terms of the Debt Policy and the Prop A Ordinance to provide funding for the construction of the Southwestern Yard, heavy and light rail vehicle replacement and maintenance, rail facilities improvements and other eligible expenditures on commuter rail, bus and rail capital projects. We currently have $123.7 million of outstanding Prop A tax-exempt commercial paper, the proceeds of which were used to pay Prop A project expenses, which we plan to replace with a portion of the proceeds of the Prop A New Money Bonds. The Prop A New Money Bonds shall be sold with a true interest cost not to exceed 5% and with a final maturity not to exceed 31 years.

Consistent with the Debt Policy criteria for evaluating refunding opportunities, the refunding of the Prop A 2011-B Bonds and any other refunding candidates must provide a minimum net present value savings of 3% of the refunded par amount or in aggregate exceed 80% of the call option value. The value of the call option, also referred to as the refunding efficiency, estimates the refunding savings today in comparison to potential future refunding savings. If the ratio is close to 100% the refunding is deemed efficient. Under current market conditions, the refunding of the Prop A 2011-A Bonds would produce net present value savings equal to about 4.9% of the par amount of the refunded bonds and an aggregate call option value of 97%. The Prop A Refunding Bonds shall be sold with a true interest cost not to exceed 5% and with a final maturity date not later than the final maturity date of the bonds being refunded.

The Prop A Bonds will be sold using a competitive sale process whereby prospective underwriters bid for the bonds on a specified sale date. The Prop A Bonds will be sold to the underwriter(s) offering the lowest true interest cost. The timing of the bond sales is contingent upon our ability to take advantage of favorable market conditions as they arise. In the event that bids do not meet our criteria, all bids will be rejected. The Prop A Bonds may be sold in separate sales on separate dates, depending on market conditions and other factors.

DETERMINATION OF SAFETY IMPACT

Approval of this report will not impact the safety of Metro’s patrons or employees.

FINANCIAL IMPACT

The costs of issuance for the Prop A Bonds will be paid from proceeds of the financing and will be budget neutral. Funding for the Prop A Bonds principal and interest expense for this financing will be included under principal account 51101 and the bond interest account 51121. Savings from the Prop A Refunding Bonds will be reflected in future budgets.

ALTERNATIVES CONSIDERED

The Board could defer the issuance of the Prop A Bonds to a later time or indefinitely. This is not recommended because the bond proceeds are needed to pay or reimburse project expenses and the permanent financing of the Prop A commercial paper will free up capacity for additional projects if needed. Additionally, Federal Reserve Bank actions and other market and economic conditions may push interest rates higher thus making it more expensive to complete projects (or refinance commercial paper, the proceeds of which were used to pay project expenses). Delaying may also result in a reduction of potential refunding savings from the currently identified refunding candidates.

NEXT STEPS

- Develop bond issuance documentation
- Obtain credit ratings
- Distribute the preliminary official statement and Notice Inviting Bids to prospective underwriters and potential investors and publish Notice of Intention to Sell Bonds and Notice Inviting Bids
- Receive electronic bids from underwriters
- Finalize bond documentation and issue Prop A Bonds

ATTACHMENTS

Attachment A - Authorizing Resolution

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